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## A BALANCED TARIFF

There can be no question as to the attitude of the American people toward the present tariff. The demand for a reduction in our present duties has been long continued and is insistent. There is every indication that certain schedules will be revised in the near future, but it is not to be expected that this will be accepted as even a temporary settlement of the tariff question. In fact, the general plan of tariff revision which seems to find most favor today—the revision of one schedule at a time—would in itself tend to keep the tariff problem before the public eye as a matter of general concern, and possibly as a political issue.

Compared with the system of periodic general revisions of the whole tariff, the method of revising the individual schedules *seriatim* has obvious advantages. It lessens the shock to industry and business; it makes possible the more thorough consideration of the facts relating to conditions in industries affected by the tariff; it minimizes the opportunity for vote-trading and for log-rolling of various sorts. But these considerations all relate to the economic or political aspects of the tariff; that is, to the tariff viewed as a protective measure. So far as the revenue aspects of the tariff are concerned the older system of tariff legislation had some advantages which do not appear in the method of revision schedule by schedule.

In a general revision of the tariff a cut in rates involving an appreciable loss in governmental revenue could be balanced by increases in the rates on other items or by imposing duties on commodities previously admitted free. Despite the crudities in the methods of preparing and amending tariff bills, the tariff as a whole was generally framed so as to yield an adequate amount of revenue to the government.

That tariff bills have been regarded as general revenue measures is clearly shown by the occasional inclusion or contemporaneous adoption of revenue-yielding devices other than duties on imports, such as the income tax of 1894, and the corporation tax of 1909. In both of these instances a probable decrease in tariff revenues was partly responsible for the desire to create new sources of revenue.<sup>1</sup>

If the tariff is to be revised gradually, as it should be, and if

<sup>1</sup> Noyes, *Forty Years of American Finance*, p. 227; Robinson, "The Federal Corporation Tax," *AMERICAN ECONOMIC REVIEW*, vol. I, p. 691.

the general trend of this revision is toward lower duties, there must of necessity be a continual increase in the revenue yielded by other sources of federal increase. In revision schedule by schedule, with each important decrease in customs duties necessitating an increased revenue from some other source, the result would be apt to be a needlessly complex revenue system, and there would also be the recurrent temptation to resort to dangerous fiscal experiments. At any rate, it will be readily conceded that any proposals looking toward considerable reductions in the amount of revenue yielded by our protective duties should be accompanied by suggestions as to practicable methods of making up the deficiency in revenue.

It is the purpose of the present paper to suggest a plan by which compensation for the decrease in customs receipts can easily be made. This additional revenue would come in the first instance from those directly benefited by the protection which the tariff schedules provide. The plan proposed would also, it is confidently believed, introduce a new principle into tariff legislation, by which tariff rates would tend to readjust themselves to a fair level as conditions changed.

The main proposal is simply that all manufacturers or other producers of goods protected by the tariff should be required by congressional enactment to pay a federal excise license or tax equal to a fixed proportion (say five per cent) of the import duties on such articles. It is also highly desirable that there should be a permanent tariff commission to which manufacturers, other producers, and all interested parties might submit facts and petitions relating to the revision of tariff schedules. The commission, in turn, would submit its own recommendations to Congress. It would seem that this simple plan would so operate as to produce the following results: (1) The tariff duty would be withdrawn on many articles, and additions to the free list would be made almost automatically as conditions changed. (2) Excessive duties would be reduced, and there would be no incentive to any manufacturing interest to ask for unnecessarily high protection. (3) There would be a tendency to reduce such unduly high monopoly prices as are made possible by high tariff rates. (4) A large and elastic revenue would be yielded. (5) The tariff on many necessities could be greatly reduced. These five points will be discussed in order:

(1) Manufacturers and other producers would petition the tariff commission for the removal of the tariff on all articles which, from the producers' point of view, need no protection. By such producers the excise tax would be felt as a useless and burdensome expense. This would simplify our present tariff schedules by eliminating all dead items. Moreover, from time to time in the future, by a similar process, the tariff would be removed from other articles, which, under changed conditions, no longer needed protection. There is much dead wood in our present tariff schedules. In default of a plan such as the one proposed, which relies upon the self-interest of manufacturers for the initiative in these matters, it would require ceaseless vigilance upon the part of the tariff commission and of Congress to keep the schedules properly pruned.

(2) Since the proposed excise tax is made a fixed per cent of the full amount of the tariff schedule, manufacturers and other producers would petition the commission for lower tariff rates on all articles on which the tariff is higher than is needed for protective purposes. For example, if the present tariff on a certain article is 50 per cent and if foreign goods cannot compete in our market unless the tariff is as low as 10 per cent, it would naturally follow that our home producers would desire that the tariff be reduced to say 20 per cent, as they would not care to pay five per cent on a 50 per cent schedule (or 2.5 per cent on the value of their product) if five per cent on a 20 per cent schedule (or one per cent on the value of their product) would give them the necessary protection. Thus from time to time, as conditions changed, the schedules would be revised in such a manner that the tariff would always be "balanced" or adjusted to what (under the protective principle) may be called its natural level.

(3) It may be objected that in many cases manufacturers would prefer to leave the present schedules unchanged, despite the excise tax, because the additional protection enables them to charge higher prices and thus to secure higher profits. It is evident that this objection does not apply in cases where competition among home producers is sufficiently active to have any efficacy as a price-fixing force. When there is real competition a permanent condition of abnormally high profits is as impossible in protected industries as in unprotected ones. Only when there is an effective combination of home producers, or a monopoly of any

other sort in the protected industry, does the objection mentioned have any weight. And even in this case the proposed balanced tariff would not be without effect. Today, tariff protection costs the monopoly or combination nothing. The excise tax, bearing a fixed ratio to the amount of tariff protection received, would be a direct burden upon such high monopoly prices and profits as are made possible by unduly high protective duties. Even without the excise tax high monopoly prices do not, of course, create profits correspondingly larger than lower prices would bring, for the reason that in general a smaller quantity of goods can be sold at the higher than at the lower prices. The excise tax would be relatively greater on the higher than on the lower prices (where a high tariff rate is the condition that makes high prices possible), and would in many cases lead the monopolists to prefer to sell at lower prices with reduced tariff protection and with a correspondingly lower excise tax. In fact, under these conditions, the excise tax, although directly proportioned to the tariff rate, would vary roughly with the price a monopolist desired to charge for his goods. It would operate, in effect, much as would any tax upon the value of the monopolist's products, in which the tax rate progresses as the price is increased. Such a tax must in many cases tend to induce the monopolist to lower his prices, by making high prices relatively less profitable than they were before the tax was imposed.

(4) The excise tax proposed would produce a continuous revenue and, as will be shown presently, a tax rate equal to five per cent of the tariff rate would yield a very large revenue. The five per cent rate is taken arbitrarily for illustrative purposes for reasons of simplicity. The determination of the proper rate would be, of course, a matter for careful, thorough, and expert study. Slight variations in the rate would bring about large variations in the amount of revenue yielded. For this reason the proposed tax would add a highly elastic feature to our revenue system.

As compared with other plans for supplementing our present federal tariff and internal revenue system, the one here advocated has the unique merit that it involves absolutely no discrimination of any kind and that it is levied directly upon persons who are benefited by the protective tariff. It can be readily reconciled with either the "benefit" or the "ability to pay" theories of tax-

ation. From the point of view of constitutionality it stands, as an indirect tax, on unassailable ground, in which respect it has an advantage over federal income, inheritance, or corporation taxes. Its adoption would make it possible for the federal government to leave the whole field of direct taxation and of experimentation with new and untried forms of taxes to the individual states.

(5) The possibilities of tariff revision under the balanced tariff system are not limited to matters in which the producers themselves would take the initiative. In fact, by supplying an adequate source of revenue, it should make it easier to secure a gradual revision of the tariff along desirable lines. At present, for example, revenue considerations are strongly urged by those who advocate the retention of the tariff on such necessities as sugar and rice, and on wool and other raw materials. The extent to which the revenue yielded by the proposed excise tax would do away with the necessity of resorting to import duties on such commodities, may be indicated by an examination of the tariff receipts for 1905, the latest year for which the results of the federal census of manufactures are as yet available. The following table shows the value of goods manufactured in the United States in 1905, according to the census of that year, classified according to the tariff schedules, and the average rate of duty collected upon similar articles imported under each of the specified schedules, together with a statement of what the yield of an excise tax equal to five per cent of the average tariff rate would have been. The estimate is not altogether accurate, because the various kinds and goods of articles in each schedule are subject to different rates of import duty, and probably enter into our domestic manufactures in somewhat different proportions than they do into our imports. The "average rate of duty collected" is merely the ratio of the total customs receipts under each schedule to the total value of the goods imported. The results are, however, accurate enough to be of significance for present purposes.<sup>2</sup>

<sup>2</sup> Because the purpose of the figures is only illustrative, no attempt is made to take account of the possible effects of the excise tax upon the quantity of goods manufactured. Any overestimate on this account of the yield of the excise tax is at least partly compensated for by the fact that the census of manufactures does not include the whole manufacturing product, but only that part of it which is produced by firms making a "standardized product" for the general market. Custom work of all kinds is thus excluded.

Schedule	Manufactured in U. S. (millions)	Average rate of duty collected (per cent)	Excise tax at 5% of duty (per cent)	Yield of excise tax (thousands)
A. Chemicals, oils, paints	\$578	30	1.5	\$8,593
B. Earths, earthenware, glass	427	58	2.9	12,107
C. Metals and manufactures of	3,130	39	1.9	59,475
D. Wood " "	1,393	15	0.7	9,754
E. Sugar, molasses, and " "	418	56	2.8	11,573
F. Tobacco and manufactures of	331	109	5.4	17,880
G. Agricultural products, etc.	2,195	40	2.0	43,897
H. Spirits, wines, etc.	474	72	3.6	16,880
I. Cotton manufactures	1,014	54	2.7	27,381
J. Flax, hemp, jute, etc.	185	40	2.0	3,702
K. Wool and manufactures of	767	91	4.5	34,524
L. Silks and silk goods	138	53	2.6	3,465
M. Pulp, paper and books	549	25	1.2	6,587
N. Sundries	1,495	40	2.0	29,914
O. Other articles not provided for	459	20	1.0	4,585
<b>Total</b>	<b>\$13,534</b>			<b>\$290,318</b>

The customs duties collected on articles included in the foregoing list amounted in 1905 to \$166,967,000. This together with a revenue of \$290,318,000 from the excise tax would have amounted to \$457,285,000, whereas the total revenue collected by customs duties in 1905 amounted to only \$261,799,000. It is evident that the tariff might have been confined to the articles included in the table, and that the excise tax could have been as low as 1.5 per cent of the tariff duties and yet have produced as much revenue as was actually collected. The more important items not included in the figures given in the table were as follows:

	Duty (per cent)	Revenue (thousands)
Sugar and molasses.....	56	\$51,395
Wool .....	46	16,530
Fruit and nuts.....	42	5,774
Provisions, meat and dairy products.....	38	1,583
Fish .....	18	1,505
Breadstuffs .....	29	1,438
Vegetables .....	36	1,418
Rice .....	41	797
Iron ore .....	15	263
Salt .....	40	203

Under the system proposed, some or all of these duties might have been reduced or abolished altogether without impairing the federal revenues. It is apparent that such a reduction in the

tariff on the necessities of life and on important raw materials would in itself tend to lessen the present high cost of living. And there are, of course, the natural effects of such reductions upon other parts of the tariff—such as the effect of a reduction in the tariff on wool upon the tariff on manufactures of wool—to be taken into account.

It will be said, however, that the consumer will have to bear the burden of the excise tax, which would be shifted to him by the producers in the form of higher prices. This is to be admitted, so far as the goods affected are competitively produced, but it should be remembered that the consumer pays our present tariff duties in precisely the same manner. With the same federal expenditures, no more could be taken from his pocket by one device than by the other. Moreover, so far as the goods affected are produced by monopolies, there are, as we have seen, reasons for thinking that in many cases the prices charged consumers would be decreased rather than increased by the excise tax. But a yet more important aspect of the question, in relation to the question of the consumer's interests, is the possibility which the proposed new source of revenue affords of gradually reshaping the tariff so that it will bear less heavily upon the necessities of life and upon other articles which occupy an important place in the purchases of the great masses of the people.

One possible general objection to the whole theory of the balanced tariff remains to be considered. It will very likely be said that it involves the recognition and maintenance of the protective principle; that in reality it strikes more heavily against the revenue features than against the protective features of our present tariff. More especially, it may perhaps be urged, its tendency to keep tariff duties near the minimum below which foreign goods could be profitably imported, amounts to a recognition of the so-called principle of the "equalization of the costs of production" as the foundation of tariff reform.

In answer to all this it may be said, first, that the notion of the balanced tariff conflicts with the notion of a revenue tariff only in so far as revenue needs serve as an apology for unduly high protective duties or for the heavy taxation of necessities, and, second, that the balanced tariff is not meant to involve the abandonment of the principle of protection. It is presented merely as a practicable scheme of tariff reform, in which due at-

tention is paid to revenue features. The widespread popular dissatisfaction with our present tariff does not in general seem to proceed from dissatisfaction with the protective principle so much as from the knowledge that in many cases the rates are much higher than are really necessary for the protection of home producers. That is, it is felt that the protective tariff should not be a shield for laxity in industrial or business methods or for the extortions of monopolies or combinations.

Conceding that the principle of the "equalization of the costs of production" affords no guide to the selection of the particular industries that should have the benefit of protection, it may yet be maintained that it furnishes about the only practicable guide to any tariff revision which does not involve the complete or partial abandonment of the protective principle. The recent report of President Taft's Tariff Board on the woolen schedule indicates that statistics of "comparative costs" are apt to be too complicated and too indefinite to be of much direct value in tariff legislation. The balanced tariff would achieve its end by placing less reliance upon statistical investigations than upon the self-interest and initiative of the producers directly benefited by the protective duties. It assumes that if producers had to pay for the protection afforded them, they would not care to pay for more protection than they need. Furthermore, in addition to its direct effect on the reduction of unduly high protective duties, it would make easier the gradual general revision of the tariff under the initiative of a tariff commission or of Congress, and in such a revision it would make it possible to shape the tariff in accordance with a broad consideration of the public welfare, relatively unhampered by the exigencies of the revenue system.

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